

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Walled Lake, Michigan</u>	County Oakland
Audit Date June 30, 2005	Opinion Date August 25, 2005	Date Accountant Report Submitted To State: December 19, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature  			

# **City of Walled Lake, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2005**

# City of Walled Lake, Michigan

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# City of Walled Lake, Michigan

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**Plante & Moran, PLLC**  
27400 Northwestern Highway  
P.O. Box 307  
Southfield, MI 48037-0307  
Tel: 248.352.2500  
Fax: 248.352.0018  
plantemoran.com

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Walled Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Walled Lake, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Walled Lake, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Walled Lake, Michigan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules of the General Fund, Major Streets Fund, and Local Streets Fund, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and  
Members of the City Council  
City of Walled Lake, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Walled Lake, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

August 25, 2005

# **City of Walled Lake, Michigan**

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## **Management's Discussion and Analysis**

Our discussion and analysis of the City of Walled Lake's financial performance provides an overview of the City of Walled Lake's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$15,000 this year.
- Licensing and permit fees outperformed original budget projections with an overall increase of approximately 15 percent. Two large developments currently underway in the City during the budget year generated a large percentage of these revenues.
- Total net assets related to the City's governmental activities increased by approximately \$24,000, and the unrestricted deficit portion of net assets increased by approximately \$12,000.
- The City continued its plan for a long-term investment in its road infrastructure by meeting with Tetra Tech, MPS and mapping out a course for future road repairs, which involved a transfer from the Major Streets Fund to the Local Streets Fund. The project completed with these funds was the repair and re-surface of Decker Road between Fourteen Mile and South Drive.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Walled Lake as a whole and present a longer-term view of the City of Walled Lake's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City of Walled Lake's operations in more detail than the government-wide financial statements by providing information about the City of Walled Lake's most significant funds. The fiduciary fund statements provide financial information about activities for which the City of Walled Lake acts solely as a trustee or agent for the benefit of those outside of the government.

# City of Walled Lake, Michigan

## Management's Discussion and Analysis (Continued)

### Governmental Activities

The following tables show, in a condensed format, the current year's net assets and changes in net assets, compared to the prior year (in thousands of dollars):

TABLE I

#### Governmental Activities

			Changes from	
			Prior Year	
	June 30, 2004	June 30, 2005	in Dollars	Percent
	(in thousands)			
<b>Assets</b>				
Current assets	\$ 1,866	\$ 1,949	\$ 83	4
Noncurrent assets	<u>11,441</u>	<u>11,291</u>	<u>(150)</u>	(1)
Total assets	13,307	13,240	(67)	(1)
<b>Liabilities</b>				
Current liabilities	1,142	1,360	218	19
Long-term liabilities	<u>4,431</u>	<u>4,122</u>	<u>(309)</u>	(7)
Total liabilities	<u>5,573</u>	<u>5,482</u>	<u>(91)</u>	(2)
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	7,269	7,490	221	3
Restricted	777	592	(185)	(24)
Unrestricted deficit	<u>(312)</u>	<u>(324)</u>	<u>(12)</u>	4
Total net assets	<u>\$ 7,734</u>	<u>\$ 7,758</u>	<u>\$ 24</u>	-

We can see that the governmental activities' net assets experienced an increase of approximately \$24,000.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - decreased by approximately \$12,000 for the governmental activities. This represents a decrease of approximately 4 percent. The current level of unrestricted net assets for our governmental activities is a deficit of \$324,010.



# City of Walled Lake, Michigan

## Management's Discussion and Analysis (Continued)

While forecasting for the close of the 2004-2005 fiscal year and formulation of the 2005-2006 budget, City staff reported some troubling facts. If revenues and expenditures continued at the current pace, the General Fund balance for the City of Walled Lake would be at a dangerously low level. After reporting this information to City Council, the following steps were placed into action: (1) Under Public Act 298 of 1917, a millage of 0.1653 was approved equal to the amount of the Headlee rollback which generated additional property tax revenue, (2) the City entered into a sharing agreement with the Downtown Development Authority, and (3) we continued to budget on a "bare bones budget" strategy, eliminating all but necessities including out-of-state travel and many conferences. In respect to revenues, unlike other municipalities, the City was fortunate to experience revenues from the building department that exceeded projections. The combination of cost containment and the increase in permit revenues allowed the City to maintain adequate funding levels so services to our residents were not forced to be cut.

TABLE 2

### Governmental Activities

			Changes from	
			Prior Year	
	June 30, 2004	June 30, 2005	in Dollars	Percent
	(in thousands)			
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 964	\$ 1,103	\$ 139	14
Operating grants and contributions	453	469	16	4
General revenue:				
Property taxes	2,924	3,171	247	8
State-shared revenue	648	633	(15)	(2)
Unrestricted investment earnings	46	39	(7)	(15)
Miscellaneous	93	59	(34)	(37)
Transfers	62	59	(3)	(5)
Total revenue	5,190	5,533	343	7
<b>Program Expenses</b>				
General government	969	743	(226)	(23)
Public safety	2,930	3,209	279	10
Public works	1,191	1,415	224	19
Recreation and culture	40	33	(7)	(18)
Interest on long-term debt	126	109	(17)	(13)
Total program expenses	5,256	5,509	253	5
<b>Change in Net Assets</b>	<b>\$ (66)</b>	<b>\$ 24</b>	<b>\$ 90</b>	

# **City of Walled Lake, Michigan**

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## **Management's Discussion and Analysis (Continued)**

While the taxable value for the City of Walled Lake continues to increase, unfortunately so does the cost of providing service to our residents. One of the largest increases the City continues to experience is the soaring cost of providing health care to our employees. City staff have actively been involved in union negotiations with the six different bargaining groups within the City departments. Three contracts were settled during the 2004-2005 budget year and some concessions in health care coverage were received. These concessions will be beneficial to the financial future of the City.

Increases in expenditures were led by large increases in health care costs and other contractual benefit costs. City staff settled three union bargaining agreements which include the Police and Dispatch Association, the Police Command Officers, and the full-time fire fighters contract. Salary settlements were paid to these three groups during the budget year, but these costs were anticipated during the formulation of the original budget. Police and Fire Department staff make up almost 50 percent of City staff in total so we expect less significant settlement costs during the 2005-06 budget year. Attorney and litigation totals came in higher than originally anticipated, as you will note on page 45 of the financial statements. We will continue to closely monitor our spending in all areas of the City, including seasonal hiring, and will continue to delay certain purchases with no immediate necessity.

### **Business-type Activities**

The City of Walled Lake's business-type activities consist of the Water and Sewer Funds. We provide water to residents from the Detroit Water System. We provide sewage services through a jointly owned treatment plant with the City of Novi operated by Oakland County. The 2005 summer season was relatively dry, which resulted in a normal rate of consumption from our water system. The continued development occurring in the City continues to place additional customers onto our water system. These additions provide cost benefits to the City and water consumers based upon the principles of supply and demand. The forecast for the Water Fund is optimistic and future rate increases should be minimal.

Over the past several years, the City has been absorbing the sewer treatment rate increases due to the high volume of sewer connection fees received and utilization of the fund balance for further shortages. Starting in the upcoming budget year, we anticipate that sewer connection fees will decline as the development in the City slows, which will ultimately result in steady increases to the sewer rates of the next several budget years. We have one remaining bond payment due in the 2005-06 fiscal year and from there we will focus on maintaining a Capital Replacement Fund within the Sewer Fund as we have done in the Water Fund.

# City of Walled Lake, Michigan

## Management's Discussion and Analysis (Continued)

The following tables show, in a condensed format, the current year's net assets and changes in net assets, compared to the prior year (in thousands of dollars):

### Business-type Activities

#### Statement of Changes in Net Assets

			Changes from	
			Prior Year	
	June 30, 2004	June 30, 2005	in Dollars	Percent
	(in thousands)			
<b>Assets</b>				
Current assets	\$ 1,391	\$ 1,650	\$ 259	19
Noncurrent assets	<u>7,855</u>	<u>7,526</u>	<u>(329)</u>	(4)
Total assets	9,246	9,176	(70)	(1)
<b>Liabilities</b>				
Current liabilities	634	626	(8)	(1)
Long-term liabilities	<u>447</u>	<u>80</u>	<u>(367)</u>	(82)
Total liabilities	<u>1,081</u>	<u>706</u>	<u>(375)</u>	(35)
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	7,138	7,133	(5)	(0)
Restricted	-	6	6	100
Unrestricted	<u>1,027</u>	<u>1,331</u>	<u>304</u>	30
Total net assets	<b>\$ 8,165</b>	<b>\$ 8,470</b>	<b>\$ 305</b>	4

#### Statement of Changes in Net Assets

			Changes from	
			Prior Year	
	June 30, 2004	June 30, 2005	in Dollars	Percent
	(in thousands)			
Operating revenues - Water and sewer	\$ 1,839	\$ 1,908	\$ 69	4
Operating expenses - Water and sewer	<u>2,393</u>	<u>2,297</u>	<u>(96)</u>	(4)
Operating loss	(554)	(389)	165	(30)
Interest income	56	36	(20)	(36)
Interest expense	(99)	(33)	66	(67)
Capital charge/Tap-in fees	976	751	(225)	(23)
Transfers to other funds	<u>(62)</u>	<u>(59)</u>	<u>3</u>	(5)
<b>Change in Net Assets</b>	<b>\$ 317</b>	<b>\$ 306</b>	<b>\$ (11)</b>	

# **City of Walled Lake, Michigan**

## **Management's Discussion and Analysis (Continued)**

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### **The City of Walled Lake's Funds**

Our analysis of the City of Walled Lake's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City of Walled Lake as a whole. The City of Walled Lake's Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City of Walled Lake's major funds for 2005 include the General Fund, Major Streets Fund, Local Streets Fund, and the Capital Projects Fund.

The General Fund pays for most of the City of Walled Lake's governmental services. The most significant are police and fire, which incurred expenses of approximately \$3,058,000 in 2005. These two services are partially supported by some service charges, grants, and contributions which are recorded in the General Fund. During the current year, this amounted to approximately \$701,000. The remaining \$2,357,000 cost of the police and fire departments is funded by other general revenue sources of the General Fund, including property taxes.

### **General Fund Budgetary Highlights**

Over the course of the year, the City of Walled Lake amended the budget to take into account events during the year. The most significant change was to decrease the budgeted revenue sharing by approximately \$12,000. The City of Walled Lake's departments, overall, exceeded the amended budget, resulting in total expenditures of approximately \$220,000 above the amended budget. However, revenues did exceed expenditures in total, which allowed the General Fund's fund balance to increase from \$433,467 to \$456,938 at June 30, 2005.

### **Capital Asset and Debt Administration**

At the end of 2005, the City of Walled Lake had approximately \$18,812,000 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the City of Walled Lake has invested significantly in roads within the City of Walled Lake.

### **Economic Factors and Next Year's Budgets and Rates**

The City of Walled Lake's budget for the 2005-06 fiscal year saw a slight increase in the property tax rate through Public Act 298 of 1917. This act, along with approval by the City Council, enabled a millage of 0.1653 to be levied on all taxable property in the City according to the valuation of the property for refuse collection. The millage amount levied represents the amount equal to that of the Headlee Rollback for the 2005-06 fiscal year.

# **City of Walled Lake, Michigan**

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## **Management's Discussion and Analysis (Continued)**

The impact of Proposal A continues to have a significant effect on the City of Walled Lake property tax revenue and we must continue to watch our budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City of Walled Lake will grow less than inflation, before considering new property.

Sewer rates were increased for the 2005-2006 fiscal year by approximately 9 percent per unit (1,000 gallons) in order to bring our revenue and expense more in line with one another. The fund balance has been utilized for the past several budget years in order to balance this Enterprise Fund and as we near the final bond payment on our sewer expansion bonds, we are anticipating a steady increase in future years.

### **Contacting the City of Walled Lake's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Walled Lake's finances and to show the City of Walled Lake's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

# City of Walled Lake, Michigan

## Statement of Net Assets June 30, 2005

	Primary Government			Component
	Governmental	Business-type		Units
	Activities	Activities	Total	
<b>Assets</b>				
Cash and investments (Note 3)	\$ 1,056,728	\$ 1,850,830	\$ 2,907,558	\$ 1,122,530
Receivables:				
Customers	-	261,885	261,885	5,705
Due from other governmental units	85,753	50,230	135,983	19,097
Other	67,588	-	67,588	43,341
Internal balances	573,985	(573,985)	-	-
Due from component units	51,973	-	51,973	-
Prepaid expenses and other assets	112,481	60,900	173,381	2,370
Restricted assets (Note 1)	-	6,181	6,181	-
Nondepreciable capital assets (Note 4)	1,770,490	-	1,770,490	22,505
Depreciable capital assets - Net (Note 4)	9,520,681	7,520,416	17,041,097	555,162
<b>Total assets</b>	<b>13,239,679</b>	<b>9,176,457</b>	<b>22,416,136</b>	<b>1,770,710</b>
<b>Liabilities</b>				
Accounts payable	373,621	245,444	619,065	24,209
Due to other governmental units	32,000	-	32,000	1,196
Due to primary government	-	-	-	51,973
Accrued and other liabilities	288,672	4,426	293,098	1,387
Cash advances and deposits	232,905	-	232,905	-
Noncurrent liabilities (Note 6):				
Due within one year	432,900	376,418	809,318	63,625
Due in more than one year	4,121,803	80,139	4,201,942	346,875
<b>Total liabilities</b>	<b>5,481,901</b>	<b>706,427</b>	<b>6,188,328</b>	<b>489,265</b>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	7,490,020	7,132,435	14,622,455	577,667
Restricted:				
Major and local streets	591,768	-	591,768	-
Library capital projects	-	-	-	14,119
Water and sewer projects	-	6,181	6,181	-
Unrestricted	(324,010)	1,331,414	1,007,404	689,659
<b>Total net assets</b>	<b>\$ 7,757,778</b>	<b>\$ 8,470,030</b>	<b>\$ 16,227,808</b>	<b>\$ 1,281,445</b>

# City of Walled Lake, Michigan

	Program Revenues		
	Charges for	Operating	Capital Grants
Expenses	Services	Grants and	and
		Contributions	Contributions
<b>Functions/Programs</b>			
Primary government:			
Governmental activities:			
General government	\$ 742,845	\$ 128,650	\$ 32,109
Public safety	3,208,818	654,500	55,100
Public works	1,415,212	319,712	381,388
Recreation and culture	33,085	-	-
Interest on long-term debt	108,689	-	-
Total governmental activities	5,508,649	1,102,862	468,597
Business-type activities:			
Water	1,090,283	1,272,399	-
Sewer	1,222,844	582,966	-
Total business-type activities	2,313,127	1,855,365	-
Total primary government	<u>\$ 7,821,776</u>	<u>\$ 2,958,227</u>	<u>\$ 468,597</u>
Component units:			
Downtown Development Authority	\$ 791,706	\$ 20,847	\$ 566
Walled Lake City Library	448,947	126,838	7,026
Total component units	<u>\$ 1,240,653</u>	<u>\$ 147,685</u>	<u>\$ 7,592</u>
General revenues:			
Property taxes			
State-shared revenues			
Unrestricted investment earnings			
Miscellaneous			
Transfers			
Special item - Loss on disposal of assets			
Total general revenues and special item			
<b>Change in Net Assets</b>			
<b>Net Assets - Beginning of year</b>			
<b>Net Assets - End of year</b>			

**Statement of Activities**  
**Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (582,086)	\$ -	\$ (582,086)	\$ -
(2,499,218)	-	(2,499,218)	-
(714,112)	-	(714,112)	-
(33,085)	-	(33,085)	-
(108,689)	-	(108,689)	-
(3,937,190)	-	(3,937,190)	-
-	395,810	395,810	-
-	(102,616)	(102,616)	-
-	293,194	293,194	-
(3,937,190)	293,194	(3,643,996)	-
-	-	-	(770,293)
-	-	-	(307,673)
-	-	-	(1,077,966)
3,171,137	-	3,171,137	1,148,052
632,618	-	632,618	-
38,863	18,673	57,536	29,524
59,420	52,733	112,153	1,300
59,050	(59,050)	-	-
-	-	-	(147,620)
3,961,088	12,356	3,973,444	1,031,256
23,898	305,550	329,448	(46,710)
7,733,880	8,164,480	15,898,360	1,328,155
<b>\$ 7,757,778</b>	<b>\$ 8,470,030</b>	<b>\$ 16,227,808</b>	<b>\$ 1,281,445</b>



# City of Walled Lake, Michigan

## Governmental Funds Balance Sheet June 30, 2005

	Special Revenue Funds				Total Governmental Funds
	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects	
<b>Assets</b>					
Cash and investments (Note 3)	\$ 486,383	\$ 429,860	\$ 140,485	\$ -	\$ 1,056,728
Receivables:					
Due from other governmental units	12,949	40,134	32,670	-	85,753
Other	20,474	-	-	-	20,474
Due from other funds (Note 5)	372,558	203,075	-	-	575,633
Due from component units	51,973	-	-	-	51,973
Prepaid expenses and other assets	111,695	375	411	-	112,481
Total assets	<u>\$ 1,056,032</u>	<u>\$ 673,444</u>	<u>\$ 173,566</u>	<u>\$ -</u>	<u>\$ 1,903,042</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 158,159	\$ 103,401	\$ 112,061	\$ -	\$ 373,621
Due to other governmental units	32,000	-	-	-	32,000
Due to other funds	-	1,367	281	-	1,648
Accrued and other liabilities	176,030	37,417	715	-	214,162
Cash advances and deposits	232,905	-	-	-	232,905
Total liabilities	599,094	142,185	113,057	-	854,336
<b>Fund Balances</b>					
Reserved for prepaid expenses	111,695	-	-	-	111,695
Unreserved	345,243	531,259	60,509	-	937,011
Total fund balances	456,938	531,259	60,509	-	1,048,706
Total liabilities and fund balances	<u>\$ 1,056,032</u>	<u>\$ 673,444</u>	<u>\$ 173,566</u>	<u>\$ -</u>	<u>\$ 1,903,042</u>
<b>Fund Balance - Total Governmental Funds</b>					\$ 1,048,706
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds					11,291,171
Compensated absences are included as a liability in governmental activities					(753,552)
Long-term liabilities and related accrued interest are not due and payable in the current period and are not reported in the funds					(3,875,661)
Delinquent property taxes are included as revenue in governmental activities					47,114
Net assets of governmental activities					<u>\$ 7,757,778</u>

# City of Walled Lake, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Total Governmental Funds
<b>Revenue</b>					
Property taxes	\$ 3,122,476	\$ -	\$ 33,849	\$ -	\$ 3,156,325
Licenses and permits	578,372	-	-	-	578,372
Federal sources	39,449	-	-	-	39,449
State sources	632,618	265,803	115,585	-	1,014,006
Charges for services	448,229	-	-	-	448,229
Fines and forfeitures	77,004	-	-	-	77,004
Interest earnings and rent	62,631	2,185	300	-	65,116
Contributions - Downtown Development Authority	283,300	-	-	-	283,300
Other	148,336	618	670	-	149,624
Total revenue	5,392,415	268,606	150,404	-	5,811,425
<b>Expenditures</b>					
Current:					
General government	1,083,491	-	-	-	1,083,491
Public safety	3,058,381	-	-	-	3,058,381
Public works	793,875	341,243	262,771	-	1,397,889
Recreation and cultural	12,954	-	-	-	12,954
Planning and development	-	-	-	375	375
Debt service	283,300	-	-	202,660	485,960
Total expenditures	5,232,001	341,243	262,771	203,035	6,039,050
<b>Excess of Revenue Over (Under) Expenditures</b>	160,414	(72,637)	(112,367)	(203,035)	(227,625)
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	145,000	195,993	340,993
Transfers out	(136,943)	(145,000)	-	-	(281,943)
Total other financing sources (uses)	(136,943)	(145,000)	145,000	195,993	59,050
<b>Net Change in Fund Balances</b>	23,471	(217,637)	32,633	(7,042)	(168,575)
<b>Fund Balances - Beginning of year</b>	433,467	748,896	27,876	7,042	1,217,281
<b>Fund Balances - End of year</b>	<u>\$ 456,938</u>	<u>\$ 531,259</u>	<u>\$ 60,509</u>	<u>\$ -</u>	<u>\$ 1,048,706</u>

# City of Walled Lake, Michigan

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005**

**Net Change in Fund Balances - Total Governmental Funds** \$ (168,575)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay expenditures	257,380
Depreciation expense	(406,696)

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	14,812
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	370,557
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Accrued interest payable is recorded when due in governmental funds	6,714
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Increases in accumulated employee sick and vacation pay are recorded when earned in the statement of activities	(50,294)
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**Change in Net Assets of Governmental Activities** \$ 23,898

# City of Walled Lake, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2005

	Water	Sewer	Total Enterprise Fund
<b>Assets</b>			
Current assets:			
Cash and investments (Note 3)	\$ 1,293,447	\$ 557,383	\$ 1,850,830
Receivables:			
Customers	127,664	134,221	261,885
Due from other governmental units	50,230	-	50,230
Due from other funds (Note 5)	-	5,096	5,096
Prepaid expenses and other assets	60,035	865	60,900
Total current assets	1,531,376	697,565	2,228,941
Noncurrent assets:			
Restricted assets (Note 1)	-	6,181	6,181
Capital assets (Note 4)	866,789	6,653,627	7,520,416
Total noncurrent assets	866,789	6,659,808	7,526,597
Total assets	2,398,165	7,357,373	9,755,538
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	65,677	179,767	245,444
Due to other funds	410,153	168,928	579,081
Accrued and other liabilities	1,646	2,780	4,426
Current portion of long-term debt (Note 6)	3,595	372,823	376,418
Total current liabilities	481,071	724,298	1,205,369
Noncurrent liabilities - Long-term debt - Net of current portion (Note 6)	68,674	11,465	80,139
Total liabilities	549,745	735,763	1,285,508
<b>Net Assets</b>			
Investment in capital assets - Net of related debt	828,808	6,303,627	7,132,435
Restricted	-	6,181	6,181
Unrestricted	1,019,612	311,802	1,331,414
Total net assets	<u>\$ 1,848,420</u>	<u>\$ 6,621,610</u>	<u>\$ 8,470,030</u>

# City of Walled Lake, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	Water	Sewer	Total Enterprise Fund
<b>Operating Revenue</b>			
Customer usage billings	\$ 1,192,946	\$ 579,766	\$ 1,772,712
Tap-in fees and permits	17,367	3,200	20,567
Other charges for services	62,086	-	62,086
Other income	3,218	49,515	52,733
	<u>1,275,617</u>	<u>632,481</u>	<u>1,908,098</u>
<b>Operating Expenses</b>			
Sewage treatment costs	-	716,884	716,884
Cost of water purchased	560,182	-	560,182
Depreciation	89,220	297,629	386,849
Personnel services	282,549	88,075	370,624
General and administrative	158,332	104,223	262,555
	<u>1,090,283</u>	<u>1,206,811</u>	<u>2,297,094</u>
<b>Net Operating Income (Loss)</b>	185,334	(574,330)	(388,996)
<b>Nonoperating Revenue (Expense)</b>			
Interest income	14,494	21,021	35,515
Interest expense	-	(32,875)	(32,875)
	<u>199,828</u>	<u>(586,184)</u>	<u>(386,356)</u>
<b>Income (Loss) - Before capital contributions</b>	199,828	(586,184)	(386,356)
<b>Capital Contributions - Capital charge/Tap-in fees</b>	213,694	537,262	750,956
<b>Transfers to Other Funds</b>	(29,525)	(29,525)	(59,050)
<b>Change in Net Assets</b>	383,997	(78,447)	305,550
<b>Net Assets - Beginning of year</b>	1,464,423	6,700,057	8,164,480
<b>Net Assets - End of year</b>	<u>\$ 1,848,420</u>	<u>\$ 6,621,610</u>	<u>\$ 8,470,030</u>

# City of Walled Lake, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Water	Sewer	Total Enterprise Fund
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 1,259,337	\$ 695,643	\$ 1,954,980
Payments to suppliers	(588,736)	(715,716)	(1,304,452)
Payments to employees	(292,427)	(101,284)	(393,711)
Other payments	(141,634)	(55,031)	(196,665)
Net cash provided by (used in) operating activities	236,540	(176,388)	60,152
<b>Cash Flows from Noncapital Financing Activities - Operating transfers out</b>	(29,525)	(29,525)	(59,050)
<b>Cash Flows from Capital and Related Financing Activities</b>			
Collection of customer assessments	213,694	537,262	750,956
Purchase of capital assets	(33,401)	(30,000)	(63,401)
Principal and interest paid on capital debt	(21,019)	(319,622)	(340,641)
Net cash provided by capital and related financing activities	159,274	187,640	346,914
<b>Cash Flows from Investing Activities</b>			
Interest received on investments	14,494	9,387	23,881
Proceeds from investment securities	258,498	29,711	288,209
Net cash provided by investing activities	272,992	39,098	312,090
<b>Net Increase in Cash and Cash Equivalents</b>	639,281	20,825	660,106
<b>Cash and Cash Equivalents - Beginning of year</b>	481,748	280,385	762,133
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 1,121,029</u>	<u>\$ 301,210</u>	<u>\$ 1,422,239</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>			
Cash and investments	\$ 1,293,447	\$ 557,383	\$ 1,850,830
Less amounts classified as investments	(172,418)	(256,173)	(428,591)
Total cash and cash equivalents	<u>\$ 1,121,029</u>	<u>\$ 301,210</u>	<u>\$ 1,422,239</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>			
Operating income (loss)	\$ 185,334	\$ (574,330)	\$ (388,996)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	89,220	297,629	386,849
Changes in assets and liabilities:			
Receivables	23,355	(15,489)	7,866
Other assets	(22,937)	127,843	104,906
Accounts payable	(28,554)	1,168	(27,386)
Accrued and other liabilities	(9,878)	(13,209)	(23,087)
Net cash provided by (used in) operating activities	<u>\$ 236,540</u>	<u>\$ (176,388)</u>	<u>\$ 60,152</u>

**Noncash Investing, Capital, and Financing Activities** - In previous years, Oakland County issued bonds on behalf of the City of Walled Lake. Interest of approximately \$12,000 was earned on the related unspent construction proceeds during the year. Restricted assets of approximately \$6,000 consisting of assets held at the County were used to repay a portion of the outstanding bonds.

# City of Walled Lake, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2005

	Retiree Health Care Fund	Agency
<b>Assets</b>		
Cash (Note 3)	\$ 20,977	\$ 86,966
Investments (Note 3):		
Bank investment pool	-	10,840
Equity mutual fund	202,745	-
Bond mutual fund	131,831	-
	<u>355,553</u>	<u>\$ 97,806</u>
Total assets		
<b>Liabilities</b>		
Accounts payable	-	5,580
Due to other governmental units	1,039	-
Cash bonds and deposits	-	92,226
	<u>1,039</u>	<u>\$ 97,806</u>
Total liabilities		
<b>Net Assets - Held in trust for employee benefits</b>	<u><b>\$ 354,514</b></u>	

# City of Walled Lake, Michigan

## **Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2005**

	Retiree Health Care Fund
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 7,721
Net increase in fair value of investments	<u>24,543</u>
Net investment income	32,264
Contributions - Employer	<u>93,825</u>
Total additions	126,089
<b>Deductions</b>	
Retiree health care premium	63,056
Other	<u>11,796</u>
Total deductions	<u>74,852</u>
<b>Change in Net Assets</b>	51,237
<b>Net Assets - Beginning of year</b>	<u>303,277</u>
<b>Net Assets - End of year</b>	<u><u>\$ 354,514</u></u>



# City of Walled Lake, Michigan

## Component Units Statement of Net Assets June 30, 2005

	Downtown Development Authority	Walled Lake City Library	Totals
<b>Assets</b>			
Cash and equivalents	\$ 917,054	\$ 205,476	\$ 1,122,530
Special assessment receivable	5,705	-	5,705
Delinquent property tax receivable	43,341	-	43,341
Due from other governmental units	1,097	18,000	19,097
Prepaid expenses and other assets	1,228	1,142	2,370
Nondepreciable capital assets (Note 4)	22,505	-	22,505
Depreciable capital assets - Net (Note 4)	149,175	405,987	555,162
Total assets	1,140,105	630,605	1,770,710
<b>Liabilities</b>			
Accounts payable	24,129	80	24,209
Due to primary government	51,973	-	51,973
Due to other governmental units	1,196	-	1,196
Accrued and other liabilities	-	1,387	1,387
Noncurrent liabilities (Note 6):			
Due within one year	63,625	-	63,625
Due in more than one year	346,875	-	346,875
Total liabilities	487,798	1,467	489,265
<b>Net Assets</b>			
Investment in capital assets	171,680	405,987	577,667
Restricted	-	14,119	14,119
Unrestricted	480,627	209,032	689,659
Total net assets	\$ 652,307	\$ 629,138	\$ 1,281,445

# City of Walled Lake, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants and Contributions
Downtown Development Authority - Public works	\$ 791,706	\$ 20,847	\$ 566	\$ -
Walled Lake City Library - Recreation and culture	448,947	126,838	7,026	7,410
Total governmental activities	<b>\$ 1,240,653</b>	<b>\$ 147,685</b>	<b>\$ 7,592</b>	<b>\$ 7,410</b>
General revenues:				
Property taxes				
Unrestricted investment earnings				
Miscellaneous				
Special item - Loss on disposal of assets				
Total general revenues and special item				
<b>Change in Net Assets</b>				
<b>Net Assets</b> - Beginning of year				
<b>Net Assets</b> - End of year				

**Component Units  
Statement of Activities  
Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Walled Lake City Library	Total
\$ (770,293)	\$ -	\$ (770,293)
-	(307,673)	(307,673)
(770,293)	(307,673)	(1,077,966)
996,656	151,396	1,148,052
24,308	5,216	29,524
1,300	-	1,300
(147,620)	-	(147,620)
874,644	156,612	1,031,256
104,351	(151,061)	(46,710)
547,956	780,199	1,328,155
<b>\$ 652,307</b>	<b>\$ 629,138</b>	<b>\$ 1,281,445</b>

# City of Walled Lake, Michigan

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## Notes to Financial Statements June 30, 2005

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Walled Lake, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

#### **Reporting Entity**

The City is governed by an elected mayor and six-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Walled Lake, Michigan and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings.

The following component units are reported within the component units column in the accompanying financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The Authority's governing body, which consists of 11 individuals, is appointed by the mayor and approved by the City Council.
- b. The Walled Lake City Library is governed by a five-member board appointed by the mayor and approved by the City Council. The Library is funded by a specially voted property tax levy.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Streets Fund** - The Major Streets Fund is used to account for maintenance and construction of major public roads within the City.

**Local Streets Fund** - The Local Streets Fund is used to account for maintenance and construction of local public roads within the City.

**Capital Projects Fund** - The Capital Projects Fund is used to account for the development of capital facilities and repayment of debt service associated with those capital facilities other than those financed by the operations of a proprietary fund.

The City reports the following major proprietary funds:

**Water Fund** - The Water Fund accounts for the activities of the water distribution system.

**Sewer Fund** - The Sewer Fund accounts for the activities of the sewage collection system.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Additionally, the City reports the following fiduciary fund types:

**Retiree Health Care Fund** - The Retiree Health Care Fund accounts for medical benefits provided to retirees.

**Agency Fund** - The Agency Fund accounts for assets held by the governmental unit in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations, such as water and sewer distribution and collection. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Property Tax Revenue

Properties are assessed as of December 31; the related property taxes are billed on July 1 and become a lien on December 31 of the following year. These taxes are due without penalty during the period from July 1 through August 31 with a final collection date of February 28 before they are added to the county tax rolls. The 2004 taxable valuation of the City totaled approximately \$217 million. The taxes levied and the resulting revenue by fund and component units were as follows:

	Millage Rate	Revenue
Operating millage - Net of portion captured by Downtown Development Authority	16.2013	\$ 3,018,179
Other - Tax collection and trailer park fees		<u>152,958</u>
Total governmental funds		<u>\$ 3,171,137</u>
Library Fund - Component unit	0.8100	\$ 151,396
Downtown Development Authority capture		<u>996,656</u>
Total component units	<u>\$ 17.0113</u>	<u>\$ 1,148,052</u>

#### Assets, Liabilities, and Net Assets or Equity

**Cash and Investments** - Cash and investments include amounts in demand deposits, time deposits, U.S. governmental securities, interlocal agreements, bank investment pools, and mutual funds. Investments are reported at fair value, based on quoted market prices.

**Cash Equivalents** - For the purpose of the statement of cash flows, the proprietary fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."



# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

All trade and personal property tax receivables are shown as net of allowance for uncollectible amounts, if applicable.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - Specific assets held at Oakland County for various water and sewer system-related contracts are classified as restricted assets on the balance sheet because the City has turned over control of these assets to Oakland County based on specific contracts with them.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	40 to 50 years
Water and sewer distribution systems	38 to 50 years
Buildings and building improvements	25 to 50 years
Vehicles	3 to 15 years
Furniture and equipment	3 to 30 years

**Compensated Absences** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. In the fund financial statements, governmental fund types recognize debt issued as other financing sources.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - The City adopts a formal budget for the General Fund, the Capital Project Fund, and all Special Revenue Funds. By the end of February, all department heads submit spending requests to the City Manager so that a budget may be prepared. At the beginning of April, the proposed budget is submitted to City Council for review. Public hearings are held and a final budget is adopted by City Council no later than the third Monday in May. The City Council must approve any budget amendments. Unexpended appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget document presents information by fund, activity, and line items. The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund and Special Revenue Funds budgets as adopted by the City Council is included in the Required Supplemental Information section. These comparisons include minor expenditure budget overruns.

# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2005

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

**Construction Code Fees** - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

Building permit revenue	\$ 340,233
Direct costs	(210,780)
Cumulative costs in excess of permit revenue:	
Beginning of year	<u>(141,384)</u>
End of year	<u>\$ (11,931)</u>

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Retiree Health Care Fund was organized under Public Act 149 of 1999. Under this act, the fund is authorized to invest in accordance with Public Act 314, and accordingly can invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated seven banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2005

### Note 3 - Deposits and Investments (Continued)

The City of Walled Lake's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$1,886,642 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the City holds \$388,830 of U.S. Agency securities with a weighted maturity of 8.1 years.

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pools	\$ 335,703	Aaa	Moody's
	71,298	Aaa	Moody's
	28,000	Unrated	N/A
Interlocal agreement pools	246,868	Unrated	N/A
Mutual funds	345,710	Unrated	N/A
U.S. government agencies - FNMA	75,182	Unrated	N/A

# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2005

### Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 1,572,172	\$ -	\$ -	\$ 1,572,172
Construction in progress	-	198,318	-	198,318
Subtotal	1,572,172	198,318	-	1,770,490
Capital assets being depreciated:				
Roads and sidewalks	8,922,223	-	-	8,922,223
Buildings and improvements	1,154,303	-	-	1,154,303
Vehicles	1,296,108	25,156	-	1,321,264
Furniture and equipment	869,946	33,906	2,900	900,952
Subtotal	12,242,580	59,062	2,900	12,298,742
Less accumulated depreciation	2,374,265	406,696	2,900	2,778,061
Net capital assets being depreciated	9,868,315	(347,634)	-	9,520,681
Net capital assets	\$ 11,440,487	\$ (149,316)	\$ -	\$ 11,291,171
<b>Business-type Activities</b>				
Capital assets being depreciated:				
Water and sewer distribution systems	\$ 14,808,767	\$ -	\$ -	\$ 14,808,767
Furniture and equipment	930,851	63,401	-	994,252
Subtotal	15,739,618	63,401	-	15,803,019
Less accumulated depreciation	7,895,754	386,849	-	8,282,603
Net capital assets being depreciated	\$ 7,843,864	\$ (323,448)	\$ -	\$ 7,520,416

# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2005

### Note 4 - Capital Assets (Continued)

Capital asset activity for the City's component units for the year was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
<b>Component Units</b>				
Capital assets not being depreciated -				
Construction in progress	\$ -	\$ 22,505	\$ -	\$ 22,505
Capital assets being depreciated:				
Street lighting	512,800	-	242,400	270,400
Furniture and equipment	60,782	-	-	60,782
Books, periodicals, and materials	769,373	49,928	-	819,301
Subtotal	1,342,955	49,928	242,400	1,150,483
Less accumulated depreciation	581,021	109,080	94,780	595,321
Net capital assets being depreciated	761,934	(59,152)	147,620	555,162
Net capital assets	<u>\$ 761,934</u>	<u>\$ (36,647)</u>	<u>\$ 147,620</u>	<u>\$ 577,667</u>

Depreciation expense was charged to programs of the primary government and component units as follows:

Governmental activities:	
General government	\$ 12,794
Public safety	142,044
Public works	231,727
Recreation and culture	20,131
Total governmental activities	<u>\$ 406,696</u>
Business-type activities:	
Water	\$ 89,220
Sewer	297,629
Total business-type activities	<u>\$ 386,849</u>
Component units:	
DDA	\$ 17,093
Library	91,987
Total component units	<u>\$ 109,080</u>

# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2005

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Major Streets Fund	\$ 1,367
General Fund	Local Streets Fund	281
Major Streets Fund	Water Fund	203,075
Sewer Fund	Water Fund	5,096
General Fund	Sewer Fund	168,928
General Fund	Water Fund	<u>201,982</u>
Total		<u>\$ 580,729</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Capital Projects Fund	\$ 136,943
Major Streets Fund	Local Streets Fund	145,000
Water Fund	Capital Projects Fund	29,525
Sewer Fund	Capital Projects Fund	<u>29,525</u>
Total		<u>\$ 340,993</u>

Transfers between the various funds represent payment from one fund to another without an equivalent return of goods or services to fund operations and projects accounted for in the respective funds.

### Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements, capital leases, and installment purchase agreements are also general obligations of the government.

# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2005

### Note 6 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
General obligation bonds:						
Limited Tax General Obligation Development Bonds:						
Amount of issue: \$2,500,000	5.65%-	\$200,000-				
Maturing through 2011	6.00%	\$250,000	\$ 1,500,000	\$ (200,000)	\$ 1,300,000	\$ 200,000
Building Authority Complex Bond:						
Amount of issue: \$1,400,000	4.00%-	\$25,000-				
Maturing through 2022	6.00%	\$100,000	1,350,000	(25,000)	1,325,000	25,000
Total general obligation bonds			2,850,000	(225,000)	2,625,000	225,000
Installment purchase agreements:						
Bundo property:						
Amount of issue: \$995,000	4.80%	\$75,000-				
Maturing through 2011		\$145,000	820,000	(75,000)	745,000	100,000
Fire truck:						
Amount of issue: \$551,180	5.09%	\$48,193-				
Maturing through 2011		\$68,220	461,683	(48,193)	413,490	50,646
Honeywell, Inc. capital lease:						
Amount of issue: \$184,500	5.95%	\$17,661-				
Maturing through 2006		\$22,364	40,025	(22,364)	17,661	17,661
Total installment purchase agreements			1,321,708	(145,557)	1,176,151	168,307
Total general obligation bonds and installment purchase agreements			4,171,708	(370,557)	3,801,151	393,307
Other long-term obligations - Compensated absences			703,258	50,294	753,552	39,593
Total governmental activities			4,874,966	(320,263)	4,554,703	432,900
<b>Business-type Activities</b>						
County contractual agreement:						
Walled Lake - Novi wastewater treatment plant enlargement:						
Amount of issue: \$2,600,000	5.00%	\$300,000-				
Maturing through 2006		\$350,000	650,000	(300,000)	350,000	350,000
Government Capital Corp. capital lease:						
Amount of issue: \$90,000	6.495%	\$18,022-				
Maturing through 2007		\$19,228	56,003	(18,022)	37,981	19,228
Total county contractual obligations and capital lease			706,003	(318,022)	387,981	369,228
Other long-term obligations - Compensated absences			74,570	(5,994)	68,576	7,190
Total business-type activities			780,573	(324,016)	456,557	376,418
<b>Component Unit</b>						
Walled Lake Consolidated School Agreement:						
Amount of issue: \$769,000	-	\$52,000-				
Maturing through 2012		\$63,625	474,125	(63,625)	410,500	63,625
Loan from the City of Walled Lake Sewer Fund:						
Amount of issue: \$357,004	5.50%	\$125,513	125,513	(125,513)	-	-
Maturing through 2004						
Total component unit			599,638	(189,138)	410,500	63,625
Total governmental activities, business-type activities, and component unit			\$ 6,255,177	\$ (833,417)	\$ 5,421,760	\$ 872,943



# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2005

### Note 6 - Long-term Debt (Continued)

Annual debt service requirements, exclusive of compensated absences, for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 393,307	\$ 191,435	\$ 584,742	\$ 369,228	\$ 19,401	\$ 388,629	\$ 63,625	\$ -	\$ 63,625
2007	413,224	170,729	583,953	18,753	614	19,367	63,625	-	63,625
2008	430,933	148,240	579,173	-	-	-	63,625	-	63,625
2009	483,780	124,393	608,173	-	-	-	63,625	-	63,625
2010	501,772	94,257	596,029	-	-	-	52,000	-	52,000
2011-2015	878,135	242,434	1,120,569	-	-	-	104,000	-	104,000
2016-2020	500,000	117,050	617,050	-	-	-	-	-	-
2021-2022	200,000	14,350	214,350	-	-	-	-	-	-
Total	<u>\$ 3,801,151</u>	<u>\$ 1,102,888</u>	<u>\$ 4,904,039</u>	<u>\$ 387,981</u>	<u>\$ 20,015</u>	<u>\$ 407,996</u>	<u>\$ 410,500</u>	<u>\$ -</u>	<u>\$ 410,500</u>

The future minimum lease payments for various capital leases for the years June 30, 2006 through June 30, 2007 and in total are as follows:

Years Ending June 30	Governmental Funds	Water Fund
2006	\$ 18,190	\$ 21,129
2007	-	19,368
Total minimum lease payments	18,190	40,497
Less amount representing interest	(529)	(2,516)
Present value at June 30, 2005	<u>\$ 17,661</u>	<u>\$ 37,981</u>

### Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits and participates in the Michigan Municipal League risk pool for claims relating to general liability and property, unemployment compensation, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 8 - Defined Benefit Pension Plan**

#### **Plan Description**

The City participates in the Municipal Employees' Retirement System of Michigan, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan 48917.

#### **Funding Policy**

The obligation to contribute to and maintain the system for these employees was established by negotiation with the collective bargaining units and requires no contribution from the employees.

#### **Annual Pension Cost**

For the year ended June 30, 2005, the City's annual pension cost of \$387,292 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using an entry age normal funding method. Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually, (b) projected salary increases of 4.5 percent per year compounded annually, (c) additional projected salary increases ranging from 0 percent to 4.16 percent per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase annually 2.5 percent per year, noncompounded after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

# City of Walled Lake, Michigan

## Notes to Financial Statements June 30, 2005

### Note 8 - Defined Benefit Pension Plan (Continued)

#### Three-year Trend Information

	Fiscal Year Ended June 30		
	2003	2004	2005
Annual pension cost (APC)	\$ 358,838	\$ 360,943	\$ 387,292
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Valuation as of December 31		
	2002	2003	2004
Actuarial value of assets	\$ 2,052,333	\$ 2,377,680	\$ 2,667,445
Actuarial accrued liability (entry age) (AAL)	\$ 6,845,619	\$ 7,356,494	\$ 7,622,313
Unfunded AAL (UAAL)	\$ 4,793,286	\$ 4,978,814	\$ 4,954,868
Funded ratio	30%	32%	35%
Covered payroll	\$ 2,081,859	\$ 2,243,260	\$ 2,102,954
UAAL as a percentage of covered payroll	230%	222%	236%

### Note 9 - Defined Contribution Retirement Plan

The City provides pension benefits to substantially all employees other than those included in a collective bargaining unit through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Walled Lake City Council, the City contributes 7 percent to 10 percent of employees' base earnings. The employees are not required to make a contribution but may make a voluntary contribution. In accordance with these requirements, the City contributed \$13,623 during the current year, and the employees contributed \$5,588.

### Note 10 - Joint Venture

The City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County (the "Authority"). The Authority is incorporated by the Cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, and Wixom and the Charter Township of Lyon. The City appoints one member to the joint venture's governing board, which then approves the annual budget. The joint venture receives its operating revenue from member contributions and miscellaneous income.

# **City of Walled Lake, Michigan**

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## **Notes to Financial Statements June 30, 2005**

### **Note 10 - Joint Venture (Continued)**

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. During the current year, the City contributed approximately \$5,700 for its operations. Complete financial statements for the Authority can be obtained from the administrative offices at 20000 West 8 Mile Road, Southfield, Michigan 48075.

### **Note 11 - Contingent Liability - Disputed Property Taxes**

The City has collected approximately \$256,000 in taxes, which are now being disputed by various property owners. The majority of these disputed taxes, approximately \$130,000, relates to personal property taxes. The disputed property taxes are the result of new personal property tax tables issued by the State. Accordingly, the City has accrued \$130,000 for the potential refund of these disputed property taxes.

### **Note 12 - Retiree Health Care Fund**

Effective January 1, 2000, the City entered into an agreement with its employees to provide retiree health care benefits. Under terms of the agreement, the City is required to set aside \$75 per pay for each employee. Of this amount, \$70 is set aside to pay premiums of up to \$800 per month for retiree health care. The other \$5 is set aside to reimburse employees, who upon retirement or separation from the City do not wish to participate in the retiree health care program. The \$75 contributed to the plan is set aside by the City in a fund established in compliance with PA 149 of 1999, called the Retiree Health Care Fund.

In order to offset these new costs to the City, the employees contribute \$25 per pay to the City's General Fund for current health care costs. To be eligible for retirement health care benefits, an employee must have a minimum of 15 years' seniority, or six years' seniority if they were a member of the clerical unit prior to January 1, 2000. For most employees, benefits do not commence until the employee starts to draw from the City's MERS pension plan. If an employee elects not to receive a health care benefit upon retirement, the City will provide a severance benefit equal to \$25 multiplied by the number of pay periods the employee worked subsequent to January 1, 2000.

### **Note 12 - Retiree Health Care Fund (Continued)**

**Upcoming Reporting Change** - The Governmental Accounting standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2008.

## **Required Supplemental Information**

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# City of Walled Lake, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes:				
Real and personal property tax	\$ 2,674,029	\$ 2,713,987	\$ 2,697,294	\$ (16,693)
Refuse tax	320,959	320,959	320,885	(74)
Walled Lake Villa and mobile home taxes	10,750	42,399	10,387	(32,012)
Delinquent taxes	12,000	5,838	6,268	430
Collection fees	56,500	59,849	59,849	-
Interest, penalties, and other	26,000	21,851	27,793	5,942
Total property taxes	3,100,238	3,164,883	3,122,476	(42,407)
Licenses and permits:				
Building permits	291,250	345,375	340,233	(5,142)
Cablevision fee	80,000	87,708	87,708	-
Planning and zoning fees	51,500	125,113	132,113	7,000
Other licenses and permits	14,100	16,468	18,318	1,850
Total licenses and permits	436,850	574,664	578,372	3,708
Federal sources	27,797	26,809	39,449	12,640
State sources:				
Revenue-sharing	637,219	637,219	626,501	(10,718)
Police training	3,566	1,638	2,905	1,267
Liquor license fees	3,700	3,700	3,212	(488)
Total state sources	644,485	642,557	632,618	(9,939)
Charges for services:				
Radio service	37,000	36,750	46,000	9,250
Weed cutting	2,000	1,283	305	(978)
Cemetery lot sales	5,000	2,500	3,400	900
School liaison	46,851	27,568	38,024	10,456
Administrative charges to other funds	360,500	360,500	360,500	-
Total charges for services	451,351	428,601	448,229	19,628
Fines and forfeitures - District Court	80,500	70,390	77,004	6,614
Interest and rent:				
Interest and earnings	23,500	31,000	27,507	(3,493)
Equipment and building rental	42,250	33,250	35,124	1,874
Total interest and rent	65,750	64,250	62,631	(1,619)

# City of Walled Lake, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue (Continued)</b>				
Other:				
Sale of fixed assets	\$ 2,500	\$ 2,500	\$ 2,529	\$ 29
DARE contributions	40,000	40,000	40,000	-
Reimbursements	24,000	24,000	22,247	(1,753)
Refunds and rebates	30,100	31,427	31,812	385
Reimbursement for Maple Road debt service	283,300	283,300	283,300	-
Other	60,600	51,070	51,748	678
Total other	440,500	432,297	431,636	(661)
Total revenue	5,247,471	5,404,451	5,392,415	(12,036)
<b>Expenditures</b>				
General government:				
Mayor and Council	16,569	15,921	19,090	(3,169)
City Manager	59,306	58,125	52,693	5,432
Assessor	53,500	48,257	48,313	(56)
Board of Review	470	470	463	7
Attorney	36,000	22,800	25,300	(2,500)
Prosecution and litigation	118,000	168,739	204,491	(35,752)
Clerk	218,751	223,523	239,875	(16,352)
Treasurer	266,781	281,846	284,410	(2,564)
General government	214,321	200,156	208,856	(8,700)
Total general government	983,698	1,019,837	1,083,491	(63,654)
Public safety:				
Police	1,624,808	1,550,978	1,603,902	(52,924)
Fire	753,919	747,236	798,152	(50,916)
Dispatch	292,910	286,192	296,883	(10,691)
Zoning Board of Appeals	2,000	500	529	(29)
Building inspection	191,407	203,729	210,780	(7,051)
Planning Commission	82,666	129,211	148,135	(18,924)
Total public safety	2,947,710	2,917,846	3,058,381	(140,535)
Public works:				
Department of Public Works	414,080	448,711	474,981	(26,270)
Sanitation	320,959	314,928	318,894	(3,966)
Debt service	283,300	283,300	283,300	-
Total public works	1,018,339	1,046,939	1,077,175	(30,236)



# City of Walled Lake, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Expenditures (Continued)</b>				
Cultural and recreation:				
Parks and recreation	\$ 21,942	\$ 18,516	\$ 11,042	\$ 7,474
Beautification Commission	2,700	1,945	1,912	33
Total cultural and recreation	24,642	20,461	12,954	7,507
Total expenditures	4,974,389	5,005,082	5,232,001	(226,919)
<b>Other Financing Uses - Transfer out</b>	143,793	143,793	136,943	6,850
Total expenditures and other financing uses	5,118,182	5,148,875	5,368,944	(220,069)
<b>Excess of Revenue Over Expenditures and Other Financing Uses</b>	129,289	255,576	23,471	(232,105)
<b>Fund Balance - Beginning of year</b>	409,918	433,467	433,467	-
<b>Fund Balance - End of year</b>	<u>\$ 539,207</u>	<u>\$ 689,043</u>	<u>\$ 456,938</u>	<u>\$ (232,105)</u>

# City of Walled Lake, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Streets Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-shared revenue	\$ 266,488	\$ 266,488	\$ 265,803	\$ (685)
Interest earnings	8,000	8,000	2,185	(5,815)
Other	618	618	618	-
Total revenue	275,106	275,106	268,606	(6,500)
<b>Expenditures</b>				
Street construction	80,000	80,000	38,850	41,150
Street maintenance	189,746	189,746	223,887	(34,141)
Traffic signs	34,937	34,937	20,079	14,858
Administrative	55,483	55,483	58,427	(2,944)
Total expenditures	360,166	360,166	341,243	18,923
<b>Other Financing Uses - Transfer out</b>	210,000	210,000	145,000	65,000
Total expenditures and other financing uses	570,166	570,166	486,243	83,923
<b>Excess of Expenditures and Other Financing Uses Over Revenue</b>	(295,060)	(295,060)	(217,637)	77,423
<b>Fund Balance - Beginning of year</b>	599,730	748,896	748,896	-
<b>Fund Balance - End of year</b>	<u>\$ 304,670</u>	<u>\$ 453,836</u>	<u>\$ 531,259</u>	<u>\$ 77,423</u>

# City of Walled Lake, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Local Streets Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 33,855	\$ 33,855	\$ 33,849	\$ (6)
State-shared revenue	118,529	118,529	115,585	(2,944)
Interest earnings	2,000	2,000	300	(1,700)
Other	<u>670</u>	<u>670</u>	<u>670</u>	<u>-</u>
Total revenue	155,054	155,054	150,404	(4,650)
<b>Other Financing Sources - Transfer in</b>	<u>210,000</u>	<u>210,000</u>	<u>145,000</u>	<u>(65,000)</u>
Total revenue and other financing sources	365,054	365,054	295,404	(69,650)
<b>Expenditures</b>				
Street construction	20,000	20,000	15,506	4,494
Street maintenance	286,462	286,462	198,546	87,916
Traffic signs	5,113	5,113	422	4,691
Administrative	<u>48,910</u>	<u>48,910</u>	<u>48,297</u>	<u>613</u>
Total expenditures	<u>360,485</u>	<u>360,485</u>	<u>262,771</u>	<u>97,714</u>
<b>Excess of Revenue and Other Financing Sources Over Expenditures</b>	4,569	4,569	32,633	(37,364)
<b>Fund Balance - Beginning of year</b>	<u>26,966</u>	<u>27,876</u>	<u>27,876</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 31,535</b></u>	<u><b>\$ 32,445</b></u>	<u><b>\$ 60,509</b></u>	<u><b>\$ (37,364)</b></u>

## **Other Supplemental Information**

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# City of Walled Lake, Michigan

## Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Net Assets Downtown Development Authority Year Ended June 30, 2005

	Modified Accrual	Full Accrual Adjustments	Full Accrual
<b>Revenue</b>			
Property taxes	\$ 998,106	\$ (1,450)	\$ 996,656
Interest earnings	24,308	-	24,308
Other income	28,905	(6,192)	22,713
	<u>1,051,319</u>	<u>(7,642)</u>	<u>1,043,677</u>
<b>Expenditures</b>			
Street maintenance	16,889	-	16,889
Depreciation	-	17,093	17,093
Personnel costs	366,157	-	366,157
Office and administrative expenses	52,700	-	52,700
Maple Road debt service	283,300	-	283,300
School facility reimbursement	63,625	(63,625)	-
Street construction	22,505	(22,505)	-
Loss on disposal of assets	-	147,620	147,620
Miscellaneous	55,567	-	55,567
	<u>860,743</u>	<u>78,583</u>	<u>939,326</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	190,576	(86,225)	104,351
<b>Net Assets</b> - Beginning of year	651,504	(103,548)	547,956
<b>Net Assets</b> - End of year	<u><u>\$ 842,080</u></u>	<u><u>\$ (189,773)</u></u>	<u><u>\$ 652,307</u></u>
<b>Note:</b> Net assets have been designated as follows:			
Proceeds from property sale	\$ 400,000		
Street lights	442,080		
<b>Total Designated Net Assets</b>	<u><u>\$ 842,080</u></u>		

# City of Walled Lake, Michigan

## Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Net Assets Walled Lake City Library Year Ended June 30, 2005

	Modified Accrual	Full Accrual Adjustments	Full Accrual
<b>Revenue</b>			
Property taxes	\$ 151,396	\$ -	\$ 151,396
State-shared revenue	7,026	-	7,026
Interest earnings	5,216	-	5,216
Commerce Township service fee	101,829	-	101,829
Video rentals	3,039	-	3,039
Library fines and fees	21,970	-	21,970
Other income	7,410	-	7,410
	<hr/>	<hr/>	<hr/>
Total revenue	297,886	-	297,886
<b>Expenditures</b>			
Personnel costs	240,116	-	240,116
Office and administrative expenses	115,970	-	115,970
Depreciation	-	91,987	91,987
Capital outlay	50,802	(49,928)	874
	<hr/>	<hr/>	<hr/>
Total expenditures	406,888	42,059	448,947
	<hr/>	<hr/>	<hr/>
<b>Excess of Expenditures Over Revenues</b>	(109,002)	(42,059)	(151,061)
	<hr/>	<hr/>	<hr/>
<b>Net Assets - Beginning of year</b>	332,153	448,046	780,199
	<hr/>	<hr/>	<hr/>
<b>Net Assets - End of year</b>	<u>\$ 223,151</u>	<u>\$ 405,987</u>	<u>\$ 629,138</u>

September 21, 2005

Honorable Mayor and Members  
of the City Council  
City of Walled Lake  
1499 East West Maple  
Walled Lake, MI 48390

Dear Council Members :

We recently completed our audit of the basic financial statements of the City of Walled Lake for the year ended June 30, 2005. As a result of our audit, we have the following comments and recommendations for your review and consideration.

### STATE SHARED REVENUE

State shared revenue accounted for approximately 12 percent of the City's General Fund revenue and approximately 11 percent of government-wide general revenues for the year ended June 30, 2005. These percentages have eroded over the past five years, due to the State's economic troubles. The following chart depicts the City's actual and estimated revenue sharing payments over a five year period- from the State's fiscal year ending September 30, 2001 through the fiscal year ending September 30, 2006:

	Actual FY 2001	Actual FY 2002	Actual FY 2003	Actual FY 2004	Estimated FY 2005	Estimated FY 2006
Constitutional	\$ 435,621	\$ 440,058	\$ 447,509	\$ 442,649	\$ 452,322	\$ 469,980
Statutory	342,306	306,425	260,047	193,269	175,925	158,267
Total payments	<u>\$ 777,927</u>	<u>\$ 746,483</u>	<u>\$ 707,556</u>	<u>\$ 635,918</u>	<u>\$ 628,247</u>	<u>\$ 628,247</u>
Dollar change		\$ (31,444)	\$ (38,927)	\$ (71,638)	\$ (7,671)	\$ -
Percentage change		-4.04%	-5.21%	-10.12%	-1.21%	0.00%

While the City's Constitutional portion of state shared revenue has been increasing modestly each year, the Statutory portion (the portion within the control of the legislature) has consistently been reduced. This has clearly impacted the City's ability to finance operations and capital spending. The long run health of the state shared revenue may well be dependent on the State's current project to reform its business tax structure. We continue to urge the City to be conservative in its estimation of state shared revenues as this line item in the State's budget remains vulnerable. We will continue to update the City as developments occur.

### RETIREE HEALTH CARE BENEFITS

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of

## **RETIREE HEALTH CARE BENEFITS (Continued)**

providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will only impact the individual fund- based financial statements to the extent the municipalities choose to fund this cost in advance. Therefore, the manner in which retiree health care benefits are budgeted will not change, unless you begin funding the benefits. We encourage the City, as part of its preparation for GASB 45, to soon consider exploring the impact of this pronouncement on the City with the assistance of an actuary as necessary.

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is being phased in over a three year period, similar to GASB 34. It is effective for fiscal years beginning after December 15, 2006, 2007 or 2008 depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. So funding the contribution will actually reduce your long run cost.

## **INTERNAL CONTROL STRUCTURE**

The concept of "internal control structure" relates to the system of checks and balances intended to safeguard assets and ensure reliability of the accounting data. The City's policies and procedures that have been put into place, the accounting system, and the environment that the City operates in all interact together to form the internal control structure.

In planning and performing our audit of the financial statements of the City of Walled Lake as of June 30, 2005, we considered the City's internal control structure in order to determine the extent of our auditing procedures for the purpose of expressing an opinion on the financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted one matter involving the internal controls and their operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal



## **INTERNAL CONTROL STRUCTURE (Continued)**

control system that in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with management's assertions inherent in the financial statements. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions.

This report is intended solely for the information and use of the City of Walled Lake's management and others within the City.

During the fiscal year, bank and investment accounts were not reconciled on a timely basis. A timely, accurate reconciliation must be consistently performed between the bank's records and the City's general ledger for all significant cash and investment accounts and is part of a sound internal control system.

## **ACCOUNTING AND SYSTEMS ISSUES**

The following is a list of general accounting and internal control matters that we noted during the course of our audit:

- With the implementation of GASB 34 in prior year, the City inventoried all their fixed assets and infrastructure. The department heads used their own discretion regarding the fixed asset's useful life. We recommend implementing an accounting policy; whereby, standard useful lives are applied uniformly across all departments when a fixed asset is purchased. For example, all vehicles at the City could be assigned a useful life of 5 years. Only when circumstances warrant it would the useful life of the asset vary from the City's standard accounting policy.
- We noted that the City's supporting fixed asset records were not complete with respect to additions or disposals during the year. The City also does not have a formal policy indicating dollar thresholds to be used for recording fixed asset additions. During this year's audit, we were able to assist the City with updating its fixed asset schedules for activity that transpired during the year. However, we recommend that all fixed asset records be updated on a regular basis. This would also include reviewing all repairs and maintenance accounts to ensure asset purchases have been properly captured.
- During the audit, we noted the water and sewer subsidiary ledger was not being reconciled to the general ledger on a monthly basis. In conjunction with the City's monthly closing procedures, we recommend this type of reconciliation along with timely follow-up if discrepancies exist between subsidiary ledgers and the general ledger.
- Bank reconciliations continue to be prepared primarily by one employee at the City. Furthermore, an unreconciled difference persists on a monthly basis in the general checking account. During the year, some of the bank reconciliations were prepared by someone other than the Finance Director, but the reconciliations were not reviewed for accuracy. As communicated in prior years, we suggest continuing to cross train other employees to prepare bank reconciliations and follow-up on unreconciled differences. The reconciliations should also be reviewed on a timely basis to identify errors.

#### ACCOUNTING AND SYSTEMS ISSUES (Continued)

- It was noted during the audit that the City does not have a detailed building bond deposit listing that agrees to the general ledger nor are there any procedures for performing a reconciliation. One of the most basic checks and balances is the ongoing maintenance of a subsidiary ledger and a monthly reconciliation of the detailed listing of building bonds payable to the general ledger.
- We noted various liability accounts in the City's general ledger with old balances for which there is no support. The City should review these old accounts for applicability and write off any unsubstantiated amounts.
- The City does not have procedures in place to control or monitor the establishment of new vendors in the accounts payable system. Various individuals have the ability to create new vendors in the system and there is no review of the vendor listing. We recommend that the City adopt a formal policy for approving new vendors and limit access to this feature to key employees.
- Several monthly transactions occur throughout the year, which create interfund receivable/payables. These interfund balances should be reconciled at the end of each month and the associated funds transferred. This should help the City better track the cash and investment balances available in each fund on a monthly basis.
- The City's process for opening mail and entering vendor invoices into accounts payable should be reviewed. During the audit, invoices dating back five months before year end that had been received by the City were not forwarded to the appropriate individuals for payment and thus had never been paid or considered for inclusion in accounts payable at year end. There was also an instance of duplicate payments being made to a vendor.

We would like to thank you and your staff again this year for the cooperation and assistance provided during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

**PLANTE & MORAN, PLLC**



Joseph C. Heffernan